STATE OF CALIFORNIA

CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

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MEMORANDUM

DATE: October 16, 2001

TO: California Power Authority Board of Directors

FROM: Staff

SUBJECT: ***Action Item #4E)Wind Contracts***

The Authority recently issued a draft power purchase agreement to the following wind power project developers for review and negotiation.

- Clipper Windpower, LLC. 138 MW
- Cannon Energy Corporation 100 MW
- Enron Wind Development Corporation 333 MW

Staff has had several teleconferences and meetings with these developers. Although progress is being made, final agreements have not been reached at this time. However, staff wishes to summarize activities to date and key issues that have been raised by the Developers during the negotiations.

Action Requested

None at this time.

Background

To date, the Authority has executed Letters of Intent (LOI) to purchase power from 15 different proposed wind power projects. These are non-binding upon the Authority. Commensurate with the execution of each LOI, the Authority requested specific information on six project development related key success factors, including site control, equipment control, adequacy of electric interconnection, level of engineering definition, list of major permits, and a detailed Project schedule.

Upon review of the information received, staff identified specific wind projects that appeared to be in a relatively advanced state of development, and therefore most likely to enter service on their proposed commercial operation date. These included

> Enron Wind Development - Palm Springs (33 MW), Rudnick (300 MW)
> Cannon Energy Corp. – Morongo (100 MW)
> Clipper Windpower, LLC – Riverside (38 MW), Altamont (100 MW), Cape Blanco, OR (53 MW)

Commensurate with the identification of these projects, the staff, working with technical and legal support, drafted a power purchase agreement that could be offered to the Developers of these projects for their consideration. Under the proposed agreement, the Authority would purchase all energy produced by the wind project for a fixed price per megawatt-hour over a term of 10 years, and also have an option to purchase the project itself at the end of the power purchase term (year 11). This structure is consistent with the structure contemplated in the Letter of Intent. This structure allows the private Developer to own the project during the power purchase term, and take advantage of the production tax credit (PTC) that is available under federal tax law to wind power generators, and to pass this benefit through to the Authority in the form of a reduced power sale price. The PTC would expire in year 11. Rather than face a power price increase from the Developer due to the expiration, the Authority could exercise its option to purchase the plant at that time. This would allow the Authority to utilize its tax-exempt bonding capability for continued low cost power.

The Authority would not pay any fixed capacity payment under the proposed agreement, only for actual energy delivered. The Developer would be responsible for all development, construction and operation risk. The Authority would resell the power to the California Department of Water Resources (CDWR) under a separate power sale agreement between the Authority and CDWR.

The draft agreement was distributed to Developers of the identified projects. Initial teleconferences were then held, followed by face-to-face meetings, to review and negotiate terms of the draft agreement. During these sessions, the following issue was raised by the Developers.

Credit of CDWR

CDWR is the ultimate purchaser of the power from the wind projects. Each of the Developers intends to pursue project financing for their project, wherein the lenders will look to the credit quality of the power purchaser before committing funds. At this time, the Power Authority has no significant assets. Therefore, the lenders will look to the credit quality of CDWR. In several cases, the Developer will be unable to fund acquisition of wind turbines, transformers and other major equipment until CDWR has received a credit rating and construction financing is available. Therefore, development of the project would be delayed until a CDWR credit rating of suitable quality is available.

In addition, they will likely want a direct claim on the power sale revenues received by the Authority under its power purchase agreement with CDWR, so that the revenues are available regardless of the status of the Power Authority.